Our ESG Journey

A discussion with Artisan Partners Growth Team portfolio managers Jim Hamel, Jason White, Matt Kamm and Craigh Cepukenas

PORTFOLIO MANAGER
Viewpoints

January 2021

Portfolio Managers (L-R):

Jason L. White, CFA
Portfolio Manager
21 Years Investment Experience

James D. Hamel, CFA
Portfolio Manager
24 Years Investment Experience

Craigh A. Cepukenas, CFA
Portfolio Manager
33 Years Investment Experience

Matthew H. Kamm, CFA
Portfolio Manager
21 Years Investment Experience

The consideration of environmental, social and governance (ESG) factors has always been an implicit part of the Growth team's bottom-up fundamental analysis. Why has the team decided to more formally incorporate these factors into its investment process?

Jim: We view the increasing importance placed on ESG factors as one of the most notable investment management trends in recent years. We have always considered ESG factors in our evaluation of companies—largely as an implicit part of our stock-selection criteria and risk assessment process. However, we have come to believe our approach could benefit from added structure and rigor. In our view, incorporating a more formal ESG evaluation into our investment process adds transparency and depth to our assessment of prospective investments.

Matt: Notwithstanding the ethical considerations, we have a fiduciary responsibility as active managers. We are committed to incorporating responsible investing and ESG more proactively into the way we invest. Not only is this the right thing to do, but we also believe there is potential to enhance our assessment of investment risk and reward, making us better active managers to the benefit of our clients.

Craigh: We see increasing evidence that stock valuations are being influenced by investors' perceptions of whether a business is on the good or bad side of ESG issues. Furthermore, as we reflect on our team's first 25 years of stock-picking, we look back on some of our least successful investments and suspect more rigorous considerations of ESG factors could have helped us avoid some painful mistakes.

Can you talk about the team's journey over the course of 2019 as it dove deeper into ESG considerations?

Jason: We began prioritizing ESG integration in late 2018 for the reasons Jim, Matt and Craigh outlined and appointed 2 individuals—each of whom has been with the team for over 10 years—to lead the framework-development and integration efforts. We spent the first half of the year defining and understanding how we could formally integrate ESG assessments in a way that complements our time-tested, repeatable security selection and capital allocation processes without disrupting what has made our approach successful for nearly 25 years. These efforts led us to a new two-stage framework we recently implemented for all new investment ideas.

Can you describe the new two-stage framework and how it complements your existing security selection and capital allocation processes?

Jim: The new framework builds upon, rather than alters, our existing investment process. We now have an ESG review process that we employ from the idea-generation stage through a full investment campaign.

Stage one is what we call an ESG Issues that Matter Assessment. For new investment ideas, as we work to vet the company's franchise strength and profit-cycle catalysts, we also explicitly identify key ESG risks and opportunities facing the business that could impact future stock returns. The team uses the Sustainability Accounting Standards Board (SASB) framework to help guide its ESG Issues that Matter Assessments through a wide variety of topics within several broad categories—such as corporate governance, the environment and human capital, to name a few.

If a stock is added as a Garden℠ investment we begin stage two of our research, which we call the Partnership Check. In this stage, we work to develop a view of whether we're willing to partner with company management. This assessment occurs over time and coincides with efforts to deepen our understanding of the franchise and profit-cycle dynamics—with the overall objectives of building conviction in (or disproving) our investment thesis and validating the Partnership Check before adding the stock as a Crop℠ holding. During this period, we actively engage with management teams on profit-cycle dynamics and opportunistically engage on ESG risks and opportunities as appropriate. While we plan to learn and evolve in this area, we anticipate our perspectives on topics such as executive compensation, corporate governance, social responsibility and environmental impact will help companies improve their awareness of and performance in these areas over time—which we expect can in turn contribute positively to share-price performance.

Do you use third-party data providers to complement your ESG assessments?

Jason: Third-party data and research providers are used to supplement the team's analyses. Our analysts' deep knowledge of the sectors and stocks they cover typically allows us to go a couple of layers deeper than the information provided in third-party reports. We often uncover risks or opportunities that have not been caught by the third-party data providers—underscoring the value our bottom-up, fundamental analysis can add.

What are the next steps from here?

Matt: We expect to complete formal ESG Issues that Matter Assessments for all existing portfolio holdings across each of the team's strategies by the end of 2020 if not sooner. Meanwhile, as we build upon our knowledge of ESG, we will continue our outreach efforts to collaborate with clients, peers and industry contacts, as well as attend relevant ESG-related conferences and events. Importantly, we would note that ESG is broad and complex, and we will continue iterating our process as we learn.

10/8/2021–A21754L-vR